

Message Text

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ACTION ARA-14

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AMCONSUL SAO PAULO

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E.O. 11652: N/A
TAGS: EFIN, BR
SUBJECT: GOB PROVIDES CREDIT RELIEF TO DROUGHT-AFFECTED
AGRICULTURAL SECTOR

REF: (A) BRASILIA 8721, (B) BRASILIA 9998

1. SUMMARY: THE BRAZILIAN NATIONAL MONETARY COUNCIL
DECIDED 24 APRIL TO EXTEND RELIEF OF CR\$8.3 BILLION
TO AGRICULTURALISTS AFFECTED BY DROUGHT. THE EXPANSIONARY
MONETARY IMPACT WILL BE OFFSET BY POSTPONING INDEFINITELY
RELEASE OF THE ADDITIONAL 5 PERCENT COMPULSORY DEPOSIT
REQUIREMENT THAT WAS INSTITUTED IN OCTOBER 1977 AND
SCHEDULED FOR RELEASE IN MAY/JUNE. END SUMMARY.

2. FINANCE MINISTER SIMONSEN ANNOUNCED 25 APRIL THAT
THE NATIONAL MONETARY COUNCIL (NMC) DECIDED TO RESPOND TO
THE SPECIAL NEEDS OF THE AGRICULTURALISTS ADVERSELY
AFFECTED BY THE SEVERE DROUGHT IN THE SOUTH AND CENTER-
SOUTH AREAS OF THE COUNTRY. AS THE HARVESTS BEGAN IT BECAME
INCREASINGLY CLEAR THAT FARMERS WOULD FACE CONSIDERABLE
DIFFICULTIES MEETING OUTSTANDING DEBT OBLIGATIONS OWING
TO REDUCED OUTPUT AND EARNINGS. PRODUCERS OF COTTON,
RICE, CORN, SOYBEANS, AND WHEAT IN SAO PAULO,
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PARANA, SANTA CATARINA, RIO GRANDE DO SUL, AND MATTA
GROSSO HAVE BEEN AFFECTED AND WILL BE BENEFITTING FROM
THE NMC ACTION.

3. THE MONETARY COUNCIL'S DECISION CONSISTS OF THREE
MEASURES DESIGNED TO PROVIDE CREDIT RELIEF TOTALLING
CR\$8.3 BILLION (EQUIVALENT TO ABOUT 2 PERCENT OF THE

MONEY SUPPLY). FIRST, PAYMENT OF DEBTS RELATED TO CROP FINANCING ARE POSTPONED FOR TWO YEARS. SECOND, AMORTIZATIONS OF LOANS FOR FINANCING AGRICULTURAL INVESTMENTS (E.G., PURCHASE OF EQUIPMENT) WILL BE POSTPONED FOR ONE YEAR. THESE TWO MEASURES WILL RESULT IN APPROXIMATELY CR\$7.7 BILLION NOT BEING REPAYED TO THE BANK OF BRAZIL, CENTRAL BANK, AND COMMERCIAL BANKS IN COMING MONTHS. THIRD, SPECIAL EMERGENCY CREDIT LINES TOTALLING CR\$600 MILLION WILL BE PROVIDED TO THE MOST SERIOUSLY AFFECTED FARMERS. CREDIT OF CR\$255 PER HECTARE WILL BE AVAILABLE AT 13 PERCENT INTEREST FOR LOANS UP TO ABOUT CR\$44 MILLION AND AT 15 PERCENT INTEREST FOR LOANS BEYOND THAT LIMIT. THE MATURITY OF THE NEW LOANS WILL BE TWO YEARS.

4. IN ORDER TO NEUTRALIZE THE EXPANSIONARY MONETARY AFFECT OF THE CREDIT MEASURES FOR AGRICULTURE, THE NMC POSTPONED INDEFINITELY THE RELEASE OF THE ADDITIONAL 5 PERCENT COMMERCIAL BANK COMPULSORY DEPOSIT REQUIREMENT INSTITUTED IN OCTOBER 1977 (SEE REFTELS). THE INCREASED DEPOSIT REQUIREMENT WAS APPLIED IN NOV-DEC 1977 AND WAS SCHEDULED FOR RELEASE IN MAY-JUNE 1978. ACCORDING TO THE CENTRAL BANK, THE ADDITIONAL DEPOSITS PLUS INTEREST AND MONETARY CORRECTION AMOUNTED TO AN ESTIMATED CR\$8.6 BILLION AT THE END OF APRIL. THOSE FUNDS ARE
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BEING HELD BY THE CENTRAL BANK IN THE FORM OF TREASURY BONDS WHICH MATURE AT THE END OF 1979. THUS THE EFFECTIVE COMPULSORY DEPOSIT WILL CONTINUE AT 40 PERCENT.

5. ANALYSIS OF THIS MONETARY COUNCIL DECISION AND OVERALL MONETARY TRENDS WILL FOLLOW IN SEPTEMBER.
JOHNSON

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